Bausparkasse Wüstenrot AG
Austrian Covered Bonds – Performance Update

Rating rationale (summary)

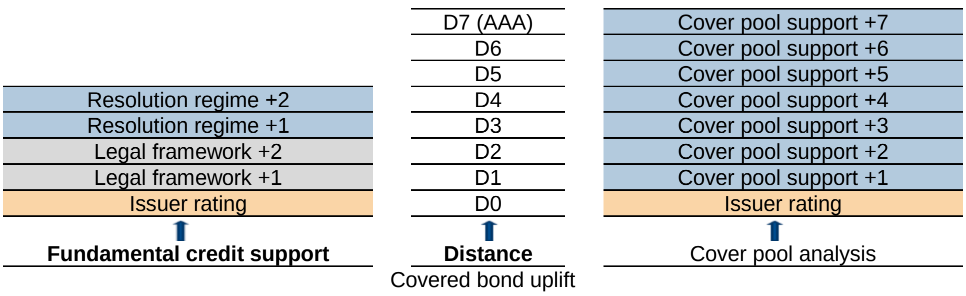
The AAA ratings with a Stable Outlook on the Austrian mortgage-covered bonds issued by Bausparkasse Wüstenrot AG (Wüstenrot) are based on the bank's issuer rating, enhanced by up to four notches of fundamental credit support and three notches of cover pool support.

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
31 March 2019	EUR 486.0m	Residential mortgages	EUR 224.0m	AAA/Stable

Wüstenrot's covered bond ratings are supported by a strong cover pool. An overcollateralisation (OC) of 117.0% on a whole-loan basis as of 31 March 2019 shields the covered bonds from market and credit risks. Available OC is well above the minimum level of 25.0% that supports the three-notch cover pool-based uplift. The cover pool continues to be of high credit quality, reflecting the fully residential and domestic cover assets. Mismatch risk is moderate, with an open interest rate position of 25% and a four-year gap on weighted average life (WAL).

Stable Outlook

The Stable Outlook on the covered bonds reflects: i) the continuous availability of high OC, which provides a significant buffer against a rise in credit and market risks, thereby maintaining the three notches of cover pool-based support; ii) our view that European covered bond harmonisation will not negatively impact the fundamental support factors relevant for the issuer and Austrian mortgage covered bonds in general; and iii) the Stable Outlook on the issuer's credit quality.



Changes since the last performance update

During 2018, the cover pool composition and quality remained relatively stable. At the same time, Wüstenrot issued predominately long-dated covered bonds, funded at a very low cost. As a result, the WAL of outstanding covered bonds increased to 18.8 years from 16.4 years as of Q1 2018. While positive for bank profitability on a going-concern basis, the longer WAL of the covered bonds results in higher costs of carry until the bonds mature. As such, the OC that supports the AAA covered bond rating has increased.

Ratings & Outlook

Issuer rating	**N/D***
Outlook	N/D*
Last rating action	N/D*
Last rating action date	N/D*
Covered bond rating	**AAA**
Outlook	Stable
Rating action	Affirmed
Last rating action date	12.07.19

*N/D – Not disclosed; Scope has assigned a private, monitored issuer rating to the bank. The issuer has solicited the assigned rating and participated in the rating process.

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Related research

Covered Bond Framework Analysis Analytical Considerations: Austria – 1 August 2016

Scope Ratings affirms at AAA/Stable the Austrian mortgage covered bonds issued by Wüstenrot – 12 July 2019

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The issuer

Only independent Bausparkasse in Austria

We monitor and maintain a private rating on Wüstenrot, the only independent Bausparkasse (building society) in Austria.

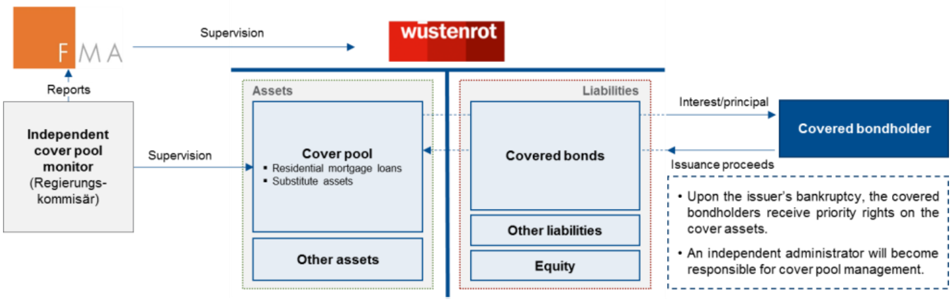
Austrian building societies have steadily been losing market share in recent years. This is due to their limited product offering combined with an interest rate environment that has made their savings products and loan offering less attractive to retail clients. Nevertheless, Wüstenrot has produced stable results thanks to its conservative risk strategy, cost management, and diversification into insurance.

Wüstenrot's independent structure results in a larger cost base and fewer opportunities for economies of scale than peers. Furthermore, Wüstenrot does not have access to a larger capital- and liquidity-supporting group structure. We nevertheless regard positively that both the bank and the overall group have a 'no dividend' policy, which organically strengthens capital positions for all group entities. With regard to the bank's capital-raising abilities, we note the potentially limited support from its majority owner.

The bank has well-established networks in several CEE countries. The bank fully owns both Wüstenrot stambena stedionca d.d. in Croatia and Wüstenrot stavebna sportel'na a.s. in Slovakia. It has a minority share (13.6%) in Hungarian Fundamenta Lakaskassza Zrt. However, rising regulatory complexity and limited synergies with its home market have prompted management to explore strategic options for some of these subsidiaries. For example, the Croatian business was put up for sale this year.

For further details on our bank credit analysis see Appendix I.

Figure 1: On-balance-sheet issuance structure



Source: Scope Ratings

Wüstenrot is the regulated entity of a retail-focused financial conglomerate. As a building society focused on both the promotion of residential mortgage lending and regular savings, Wüstenrot is subject to a specialised building society act (Bausparkassengesetz), which significantly restricts business opportunities for building societies when compared to universal banks. In late 2013, Wüstenrot received the licence to issue covered bonds, allowing the bank to widen refinancing opportunities.

Covered bond issuance is governed by the Austrian covered bond act. Austria's Financial Market Authority (FMA) currently limits covered bond issuances to 10% of the bank's balance sheet – a restriction common for Austrian building societies.

Fundamental credit support analysis

Fundamental credit support factors: four notches

The Austrian covered bond framework, particularly the Pfandbriefgesetz (Mortgage Bond Act) relevant for Wüstenrot's mortgage-covered bonds, combined with our positive view on the resolution regime, provides the covered bonds a fundamental-analysis-based credit differentiation of four notches above the issuer's rating.

Legal framework analysis

Legal framework analysis: two notches

Our analysis of the Pfandbriefgesetz confirms that the framework just meets the criteria to assign the maximum credit differentiation under our methodology. The provisions ensure that: the cover pool is segregated from the issuer's insolvency estate; bond payments continue after insolvency; and identified risks can be mitigated by OC, which generally remains available after insolvency. Austrian covered bonds also benefit from specific regulatory oversight. However, we recognise the framework's lack of clarity on liquidity or risk management for covered bonds.

We believe ongoing industry efforts will improve and consolidate the three existing frameworks, reinforced by the upcoming European covered bond directive that we expect will reduce complexity and improve credit protection for covered bond investors.

Resolution-regime analysis

Resolution-regime analysis: two notches

Wüstenrot's covered bonds benefit from an additional two-notch uplift, which reflects the exclusion of covered bonds from bail-in, our view on the resolvability and likely maintenance of Wüstenrot in the hypothetical scenario of regulatory intervention in the bank, and the moderate importance of covered bonds in Austria. In our opinion, Wüstenrot is not a systemically important covered bond issuer and Austrian covered bond stakeholders are not sufficiently supportive or cohesive to justify an additional uplift.

For a more comprehensive assessment of the fundamental support factors relevant for Austrian covered bonds, see the related research.

Cover pool analysis

Cover pool support: up to seven notches

The cover pool substantially enhances the covered bonds' credit quality, translating into an additional uplift of three notches above the four-notch rating floor provided by fundamental factors.

Since the last review in 2018, the minimum supporting OC for a three-notch uplift has increased from 21.0% to 25.0%. This has been driven by negative carry, due to a higher WAL for covered bonds (to 18.8 years from 16.4 years as of Q1 2018) while the WAL of cover assets remained stable at around 14 years.

Credit risk analysis and composition

Well-diversified, domestic and granular mortgages

The credit quality of the cover pool is sound, with purely domestic and mainly residential borrowers. The pool has no large concentrations and is very granular with an average loan size of around EUR 116,000.

The weighted average seasoning of the pool increased to 2.9 years from 2.2 years in Q1 2018. This mainly reflects the limited cover pool management and the fact that the issuer was only permitted to issue covered bonds from the end of 2013.

Voluntary LTV limit of 60%

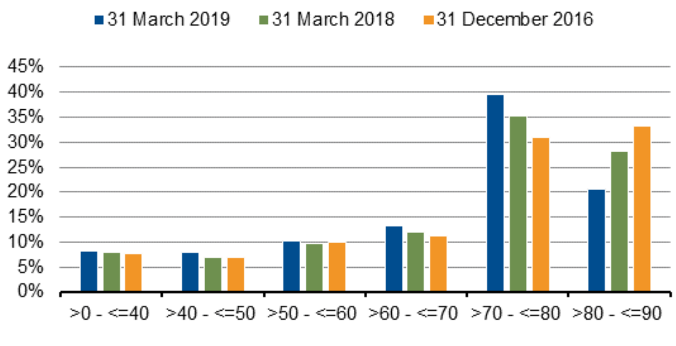
The Austrian Mortgage Bond Act does not stipulate a maximum loan-to-value (LTV) for cover pool assets. However, Wüstenrot voluntarily limits its eligible LTV to 60%. Accordingly, if a mortgage loan with a higher LTV is granted, the whole loan becomes part of the cover pool and the LTV limit effectively establishes the issuance limit.

Weighted average eligible LTV at 52%

The cover pool has a weighted average whole-loan LTV of 69.0% and a corresponding weighted average eligible-loan LTV of 51.8%, down from 52.9% in Q1 2018. This indicates a high protection against credit losses in a case of borrower default. The reduction in the weighted average LTV also reflects the higher seasoning of the pool as well as ongoing amortisation.

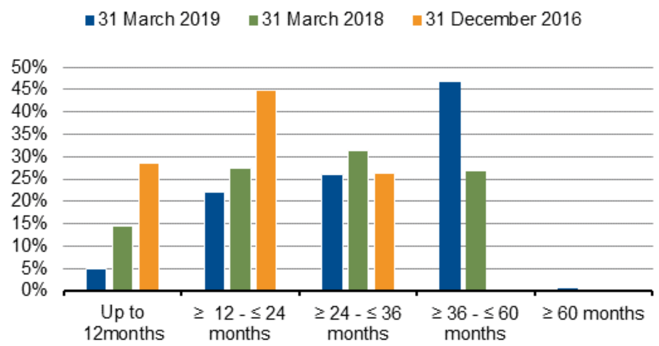
The cover pool is well distributed across Austria and concentrations have not materially changed since the last review.

Figure 2: LTV distribution (whole-loan basis)



Source: Scope Ratings, Wüstenrot

Figure 3: Seasoning

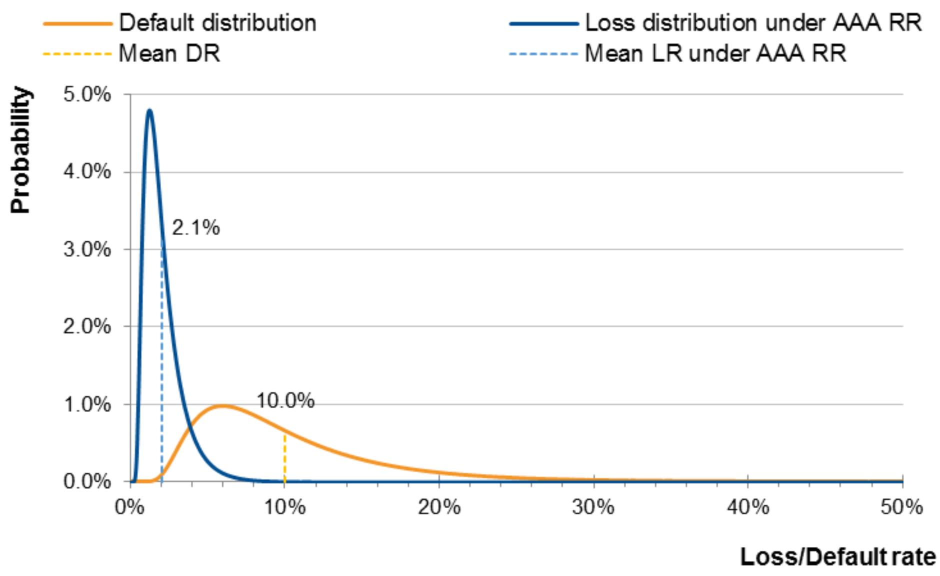


Source: Scope Ratings, Wüstenrot

Our projections of default in the cover pool use an inverse Gaussian distribution with a mean default rate of 10% and a coefficient of variation of 60%. The parameters for the default distribution were derived using the bank's loan-by-loan risk assessments.

We estimate a weighted average recovery rate of 91.3% under a base case scenario (D0) and 79.4% under the most stressful scenario (D7). Recovery rate calculations reflect rating-distance-dependent market value declines as well assumptions regarding the Austrian housing market and its unique characteristics. Stressed security value haircuts range between 40.0% and 62.5%, depending on the property's location.

Figure 4: Default and loss distribution



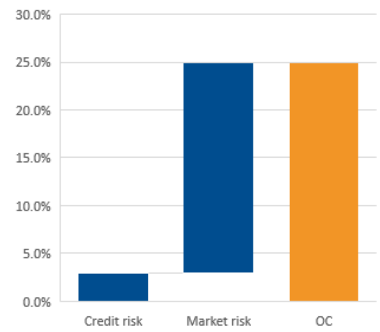
Source: Scope Ratings, Wüstenrot

Cash flow risk analysis

High prepayments and low interest rates drive results

The rating-supporting OC of 25.0% mainly reflects the programme's sensitivity against high prepayments in combination with a stressed lower-for-longer interest rate scenario. Combined, these factors result in significant costs of carry for the programme. Market risks alone account for 22pp of the 25.0% supporting OC.

Supporting OC breakdown



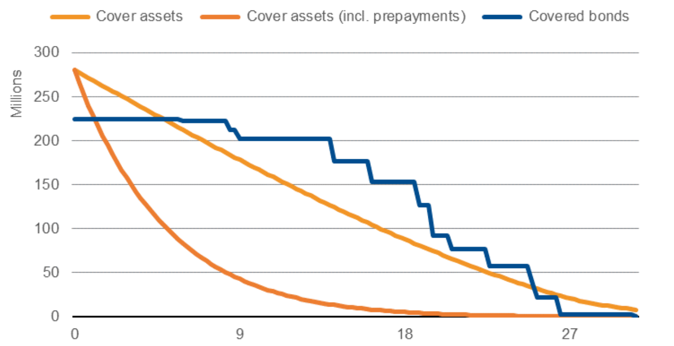
Source: Scope Ratings

As of Q1 2019, the WAL of the outstanding covered bonds increased to 18.8 years. In comparison, the WAL of the scheduled cover pool is 14.3 years. Assuming a high prepayment scenario, the asset WAL further reduces to around five years, thereby further increasing the gap between the cover assets and the covered bonds.

Compared to other Austrian mortgage covered bond programmes, structural interest rate risk is moderate. 75% of the cover assets pay a fixed rate, while all covered bond rates are fixed. Most of the bank's mortgage loans have interest-reset dates with embedded interest rate caps and floors.

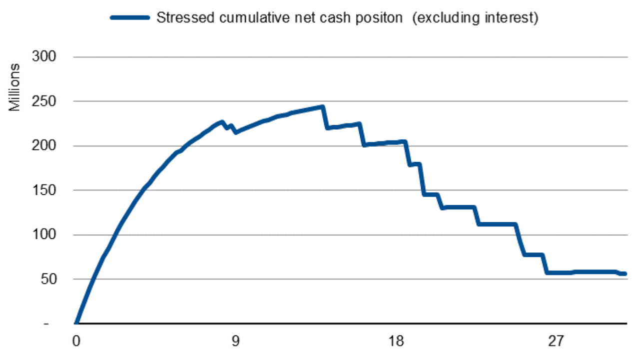
In total, credit risk accounts for 3pp of the supporting OC. This is relatively low, reflecting the mean default rate of 10%, a coefficient of variation of 60% and a stressed recovery rate of 79.4%. It also reflects the high prepayment scenario that drives the results, which reduces the lifetime of the assets and thereby the allocation of defaults.

Figure 5: Amortisation profile



Source: Scope Ratings, Wüstenrot

Figure 6: Stressed cash account



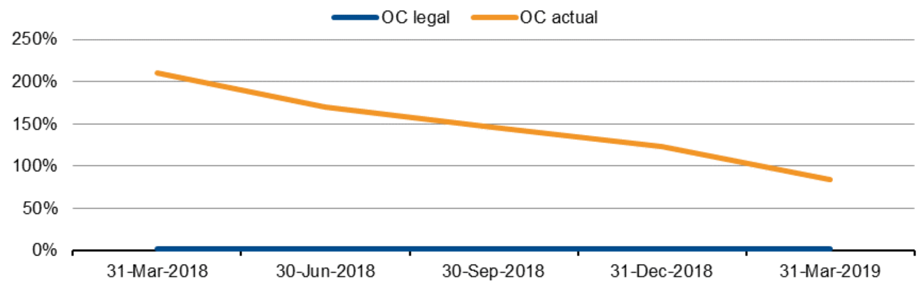
Source: Scope Ratings, Wüstenrot

Availability of overcollateralisation

Overcollateralisation decreasing but still well above legal minimum

Wüstenrot typically provides significantly higher levels of OC than the minimum stipulated by the legal framework (currently 2%). This demonstrates the issuer's willingness and ability to support the covered bond programme's strong credit quality. We are not aware of plans that would significantly change the risk profile nor reduce available OC.

Figure 7: Overcollateralisation development (eligible loan-part only)



Source: Scope Ratings, Wüstenrot

Counterparty risk

Main counterparty exposure relates to Wüstenrot

The rated bonds are exposed to Wüstenrot's roles as originator, servicer, account provider and paying agent. No documented replacement mechanisms would automatically shield the covered bonds from a credit deterioration of, for instance, the counterparties providing bank accounts. However, in such a scenario we believe the strong alignment of interests between the bank and covered bond holders would prevent negative impacts before a regulator intervenes. As part of the risk management process, the bank regularly monitors its accounts to ensure it can enter into remedial actions early on. We also take a positive view that most collections are done via direct debit, allowing for a relatively swift redirection of payments if needed.

In addition, we expect that a regulatory intervention in Wüstenrot would involve the use of available resolution tools with the aim of maintaining the issuer. We do not expect the active management and servicing of the cover pool to be severely impacted in such a scenario.

Country risk

Country risk currently not affecting the ratings

Sovereign risk does not limit the ratings of Wüstenrot's mortgage-covered bonds. We believe the risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems are currently remote.

Sensitivity analysis

No rating buffer to potential change of issuer rating

An issuer downgrade or negative change in its Outlook would result in commensurate changes for the covered bond ratings, while minimum supporting OC would remain stable at 25.0%. This reflects the maximum uplift available to the rated covered bonds.

If the issuer rating was upgraded, the covered bond rating would not change, but the minimum rating-supporting OC may reduce to 20.0%, reflecting the issuer's improved ability to shield the covered bonds from higher losses.

Constraint through rating-supporting OC unlikely

The currently provided OC of 117.0% well exceeds the 25.0% level needed to support the AAA rating. We do not expect rating-supporting OC to constrain the rating in the short to medium term because covered bond issuance is restricted to 10% of the balance sheet and the bank's covered bond issuance strategy. This assumption also reflects the issuer's stable underwriting criteria and that the cover pool's credit quality does not materially differ from the additional available eligible assets or the bank's mortgage book.

Appendix I: Issuer rating rationale

Highlights

- Wüstenrot is the oldest and only remaining independent building society in Austria. Together with its insurance subsidiary, Wüstenrot Versicherungs-AG, Wüstenrot forms a nationwide bancassurance franchise that is supported by distribution agreements with leading commercial banks such as Bank Austria and BAWAG.
- As niche players, the few Austrian building societies have steadily been losing market share in recent years. This is due to their limited product offering combined with an interest rate environment that has made their savings products and loan offering less attractive to retail clients. Nevertheless, Wüstenrot has produced stable results thanks to its conservative risk strategy, cost management, and diversification into insurance.
- Wüstenrot has several subsidiaries in neighbouring CEE countries, which have delivered steady performance but are of limited strategic value because synergies with its core Austrian business are difficult to achieve. The Croatian business was put up for sale this year in line with the group's efforts to reallocate capital to support its competitive position in its home market.

Rating drivers (summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:

- Wüstenrot has a well-established brand as a specialised housing-finance lender and bancassurance provider in Austria.
- Falling market share and stagnating business volume of Austrian building societies will require further adjustments to Wüstenrot's stand-alone strategy.
- Prudent and conservative management of asset quality, capital and liquidity is rooted in the bank's independent position. The low-risk profile should provide resilience during periods of low profitability.

Rating change drivers

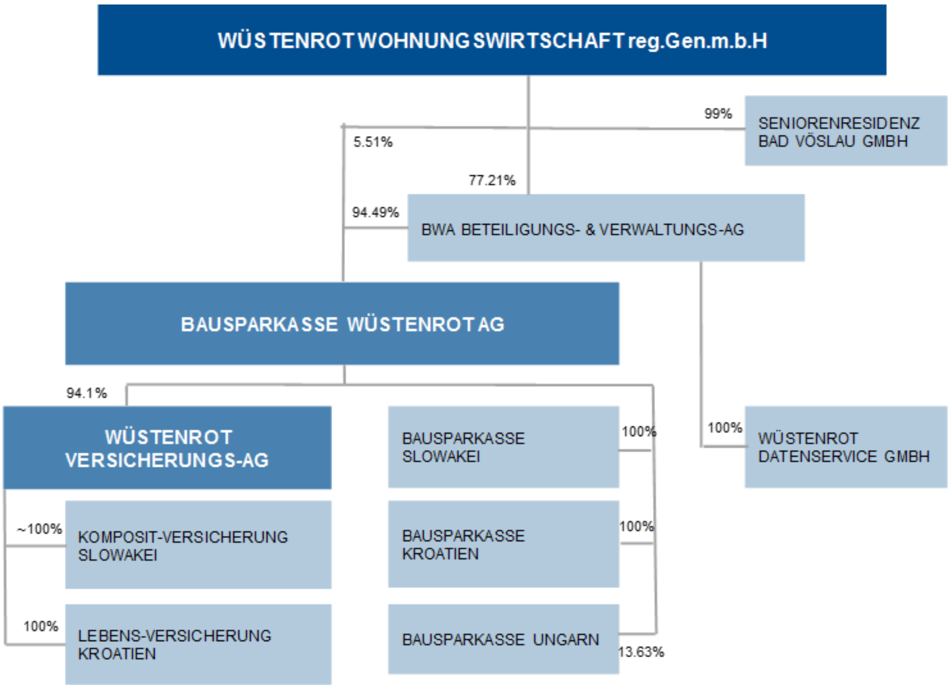
↑	Successful cost containment with sustained improvement in profitability and financial flexibility. Broadening franchise through new bank and insurance offerings in the core Austrian retail market
↓	Changing risk profile and weaker credit due to decreasing market share and diminishing profitability
↓	Any risks arising from subsidiaries (insurance or foreign-based)

Group structure

Well-established brand as a specialised housing-finance lender and bancassurance provider in Austria

Wüstenrot Group is a co-operative financial services group headquartered in Salzburg. Its main asset is Bausparkasse Wüstenrot AG (Wüstenrot), which in turn owns Wüstenrot Versicherungs-AG and other building society interests in CEE countries (Figure 8). The group offers residential home financing, financial precautionary savings, life and non-life insurance products (including health and mobility), as well as general insurance-based investment products. As of December 2018, Wüstenrot had 488 employees in Austria and the insurance company had a further 1,066 employees.

Figure 8: Wüstenrot group structure



Source: Scope Ratings

Mixed co-operative and private ownership

The bank's main shareholder, Wüstenrot Wohnungswirtschaft reg.Gen.m.b.H., is a cooperative institution owned by individual members and founded to promote affordable housing. Minority shareholders control 21.5% of the bank via BWA Beteiligungs- & Verwaltungs-AG. These comprise various banks that are largely passive shareholders and either current or former distribution partners of Wüstenrot.

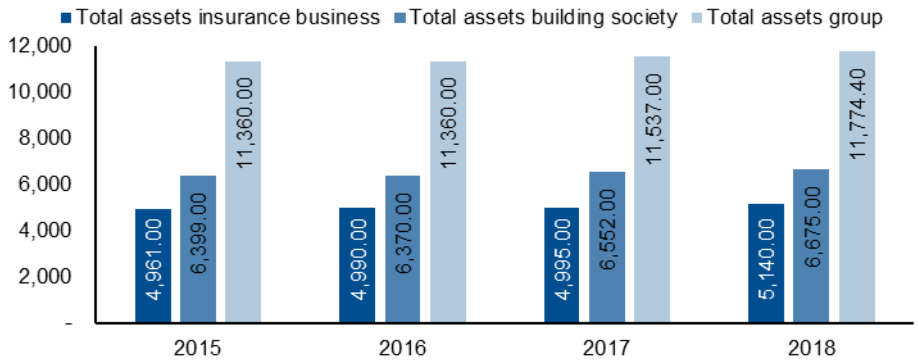
Table 1: Wüstenrot shareholder structure – BWA Beteiligungs- und Verwaltungs-AG

Shares in BWA Beteiligungs- und Verwaltungs-AG as of 31 December 2018	in %	in EUR
Wüstenrot Wohnungswirtschaft reg.Gen.m.b.H.	77.21	165 573 034.14
UniCredit Bank Austria AG	12.63	27 083 340.30
BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG	3.88	8 316 743.21
Oberbank AG	2.6	5 576 638.34
Other minority shares	3.68	7 885 567.52
	100	**214 435 323.00**

Source: Company data, Scope Ratings

Wüstenrot is the largest entity within the group with total assets of EUR 6.7bn on a stand-alone basis, which represent 57% of consolidated group assets if the insurance subsidiary is included (Figure 9).

Figure 9: Development of total assets: Wüstenrot Group (EUR m)



Source: Company data, Scope Ratings

Wüstenrot Bausparkasse

Wüstenrot is supervised nationally in Austria by the FMA and the OeNB. In addition, Austrian building societies are subject to a specialised building society act (Bausparkassengesetz) that defines their special purpose.

Narrowly defined business model

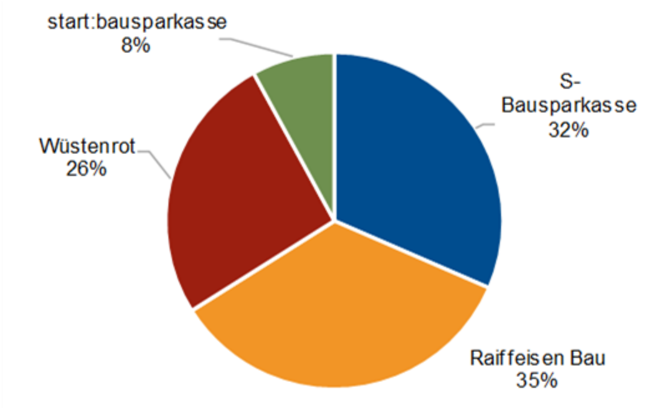
The savings contracts provided by building societies appeal to Austrian retail clients because of the additional incentive payments by the government. The proceeds are used to finance residential housing, but loans can also be used to a certain degree for education and for the care of the elderly or other individuals. Building society loans based on a savings contract are restricted to EUR 220,000 per person, and the maximum LTV is 80%.

Wüstenrot uses various distribution channels, including customer centres across Austria, a network of financial advisors, mortgage brokers, as well as cooperating with various commercial banks. We particularly regard the network of financial sales consultants as a competitive advantage for Wüstenrot. It provides a close connection to the bank’s clients on a relatively low cost base.

Despite falling rates and a declining market, many retail investors still consider building deposit contracts a core investment, mainly due to the attached government subsidy.

Hence, building societies continue to see tepid demand for their savings products, which function as their main and often exclusive source of funding. Wüstenrot benefits from strong brand recognition as the oldest and only independent building society in Austria. Its share of an overall stagnating market is 26%, placing it third among the remaining four players in the market.

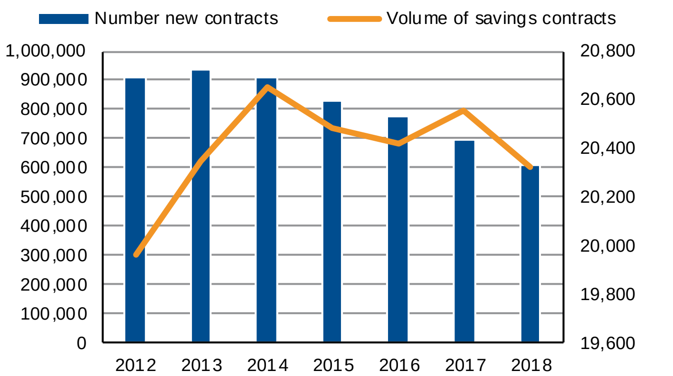
Figure 10: Bausparkassen market shares for loans (mortgage loans, bridge-financing and other loans) as of YE 2018 (%)



Source: Company data, Scope Ratings

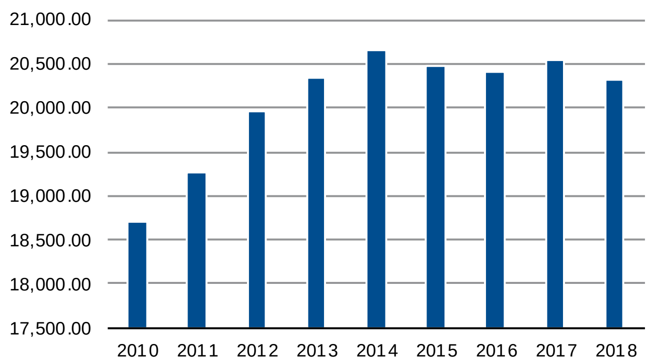
Since 2014, the building society sector has seen steadily decreasing sales, against a backdrop of a declining overall market for building deposits in terms of both contract numbers and savings volume.

Figure 11: Number of new savings contracts with building societies (units) versus volume of outstanding savings contracts (EUR m)



Source: Company Data, Arbeitsforum der Österreichischen Bausparkassen (AÖB)

Figure 12: Number of new savings contracts with Wüstenrot (units)



Source: Company data, Scope Ratings

Falling market share and stagnating business will require adjustments to strategy

Despite government subsidies, building society contracts have become less attractive relative to alternatives in the form of plain low rate mortgage loans (in the past often in CHF rather than EUR) that are available from traditional banks. Savings contracts are often no longer converted into loans. The number of regular savers has declined in favour of larger lump-sum deposits that are regarded as long-term.

A change in client preferences can lead to asset and liability mismatches for the building society sector, requiring an appropriate ALM strategy using for example derivatives and covered bonds. However, unlike in the German market, Austrian building deposits do not commit the bank to a fixed interest rate for a potential future mortgage loan, which significantly reduces the interest rate risk in case savers do not convert their deposits into a mortgage loan.

Wüstenrot is not a full-service bank and, unlike peers affiliated with commercial banks, lacks access to a retail branch network. However, based on its distribution agreements with other banking groups such as BAWAG and Bank Austria, and its own sales force, Wüstenrot nevertheless has an extensive bank client reach across Austria.

Foreign subsidiaries provide source of capital generation

Wüstenrot has well-established networks in several CEE countries. The bank fully owns both Wüstenrot stambena stedionca d.d. in Croatia and Wüstenrot stavebna sporteľna a.s. in Slovakia. It has a minority share (13.6%) in Hungarian Fundamenta Lakaskassza Zrt. However, rising regulatory complexity and limited synergies with the home market have prompted management to explore strategic options for some of these subsidiaries. For example, the Croatian business was put up for sale this year.

Table 2: Key figures of CEE building society entities

Country	Slovakia	Croatia	Hungary
Institution	Wüstenrot stavebna sporteľna a.s.	Wüstenrot stambena stedionca d.d.	Fundamenta-Lakáskassza Zrt.
As of	YE 2018	YE 2018	YE 2018
Year of establishment	1993	1998	1997
Ownership share of Wüstenrot	100%	100%	13.63%
New savings contract portfolio	14,295	17,132	273,938
Deposits (EUR m)	384	224	1,561
Loans (EUR m)	348	191	1,271
Employees	257	169	582
EBT (EUR m)	2	2	26
Total assets (EUR m)	440.0	231.4	1,560.9

Source: Company data, Scope Ratings

Capital and liquidity position

Prudent management of capital and liquidity is rooted in the bank's independent position

Wüstenrot has a sound stand-alone common tier 1 equity (CET1) ratio of 14.8% as of year-end 2018 (2017: 14.7%) and total capital ratio of 18.4% (18.6%) at the parent company. The leverage ratio was 7.4%. Capital generation at the parent company benefits from retained earnings as well as the upstreaming of dividends from its insurance subsidiaries in 2018, though even after the insurance subsidiary resumed dividends the rate of internal capital generation is moderate (+4.5% CET1 in 2018).

Wüstenrot's funding depends mainly on retail deposits (c. 85% of total liabilities), with the majority linked to savings contracts. This provides the bank with a stable deposit base because any cancelation of a building deposit contract incurs penalty fees.

The loan-to-deposit ratio is only 87%, implying that the bank has ample funding for its mortgage business. Nevertheless, despite the deposit overhang, Wüstenrot also issues a small amount of covered bonds within the 10% maximum limit, mainly as a hedge to its long-dated mortgages.

The bank is therefore left with a sizeable investment portfolio that includes cash, bonds, investment funds and the investments into its bank and insurance subsidiaries. At end-2018, the bank directly owned EUR 687mn of bonds of which EUR 198mn were central bank eligible (in addition to other ECB collateral). The remaining portfolio is widely diversified outside of Austria, partly allocating funds to external asset managers.

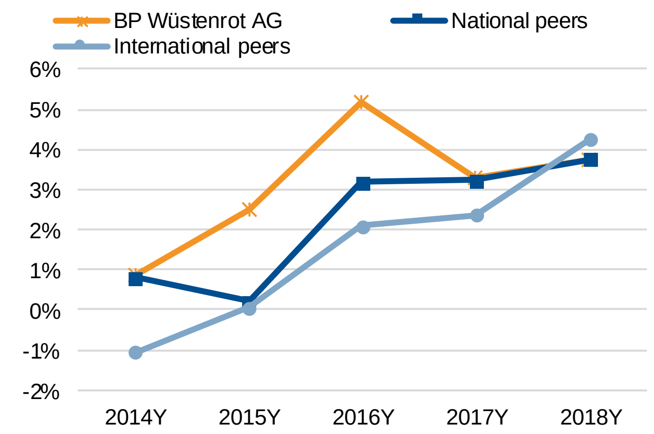
Low-risk profile provides resilience during periods of low profitability

We consider the credit risk of Bausparkasse Wüstenrot to be low due to a focus on residential mortgage lending. The loan portfolio of Wüstenrot (c. EUR 4.9bn as of year-end 2018) is composed of diversified residential mortgages in Austria. Most loans (c. EUR 3bn) are based on savings contracts (Bauspardarlehen). Such mortgage loans typically carry an initial LTV between 60% and 80% and a maturity profile of 10-20 years.

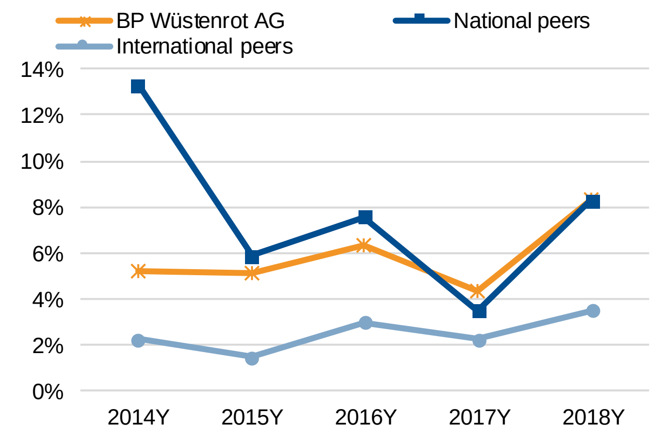
Non-performing mortgages have been consistently low over the past years, at around 0.7% in 2017, topping 1.69% in 2009, which is still low compared to that of commercial bank peers. Any downside risk with regards to an interest rates change should be limited due to a structure of capped interest rate contracts, which contain fixed lower and upper interest rate levels.

Peer comparison

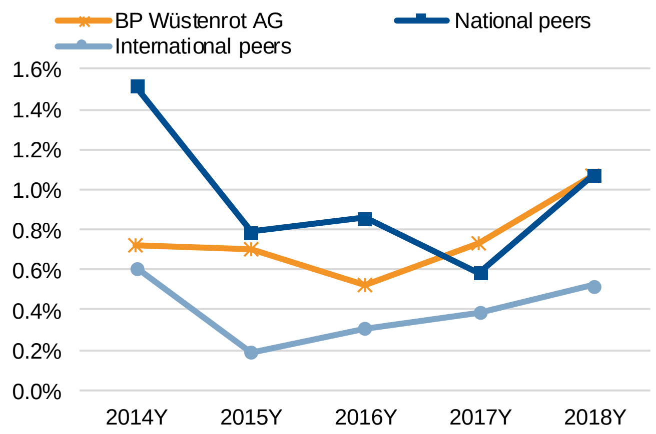
Net loan growth



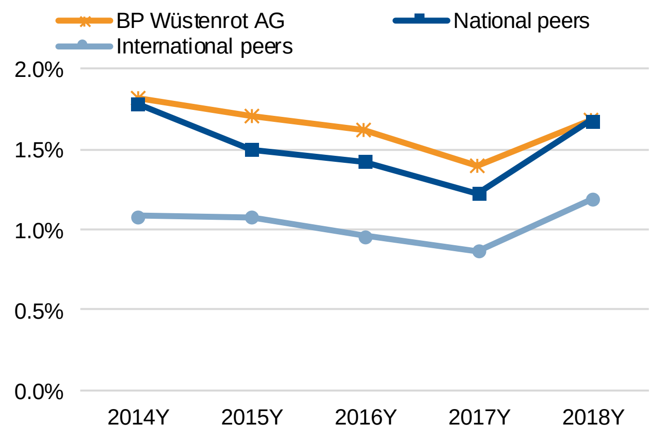
Return on average equity (%)



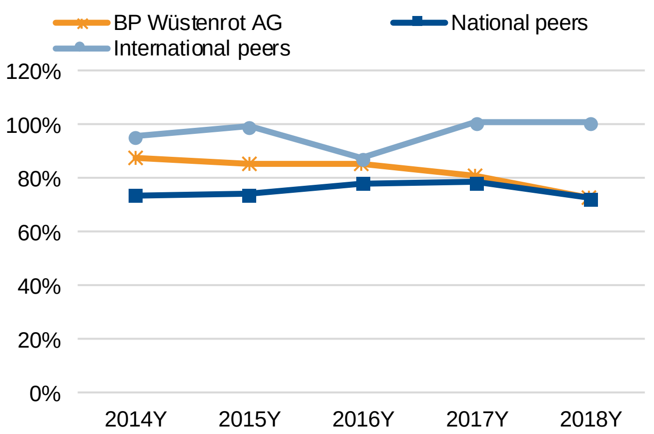
Pre-provision income/RWA (%)



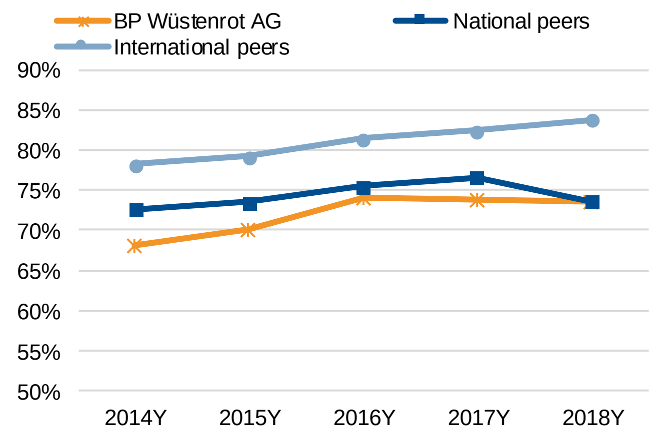
Net interest margin (%)



Cost-income ratio



Net loans/assets (%)



Source: Company data, Scope Ratings

*National peers: Bausparkasse Wustenrot, Raiffeisen Bausparkasse

International peers: Bausparkasse Wustenrot,Alte Leipzeiger Bausparkasse, Debeka Bausparkasse AG, BHW Bausparkasse

Selected financial information – Bausparkasse Wüstenrot AG (1/2)

	2014Y	2015Y	2016Y	2017Y	2018Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	482	224	151	187	196
Total securities	945	1,112	924	934	993
of which, derivatives	NA	NA	NA	NA	NA
Net loans to customers	4,167	4,270	4,490	4,638	4,811
Other assets	527	490	496	522	537
Total assets	**6,120**	**6,097**	**6,062**	**6,280**	**6,537**
Liabilities					
Interbank liabilities	58	115	144	47	38
Senior debt	140	95	48	115	190
Derivatives	3	3	3	3	3
Deposits from customers	5,243	5,188	5,138	5,390	5,531
Subordinated debt	136	135	135	100	100
Other liabilities	102	101	104	112	117
Total liabilities	**5,682**	**5,636**	**5,571**	**5,767**	**5,980**
Ordinary equity	438	461	491	513	557
Equity hybrids	0	0	0	0	0
Minority interests	0	0	0	0	0
Total liabilities and equity	**6,120**	**6,097**	**6,062**	**6,280**	**6,537**
Core tier 1/ common equity tier 1 capital	419	437	461	491	514
Income statement summary (EUR m)					
Net interest income	100	95	91	79	99
Net fee & commission income	13	15	13	10	9
Net trading income	NA	NA	NA	NA	NA
Other income	NA	NA	NA	NA	NA
Operating income	**144**	**143**	**140**	**133**	**145**
Operating expenses	126	122	119	108	105
Pre-provision income	**18**	**22**	**21**	**25**	**40**
Credit and other financial impairments	-8	-4	-7	2	9
Other impairments	4	2	11	-1	-5
Non-recurring items	NA	NA	NA	NA	NA
Pre-tax profit	**22**	**23**	**17**	**24**	**36**
Discontinued operations	0	0	0	0	0
Other after-tax Items	0	0	0	0	0
Income tax expense	0	0	-14	2	-8
Net profit attributable to minority interests	0	0	0	0	0
Net profit attributable to parent	**22**	**23**	**30**	**22**	**44**

Selected financial information – Bausparkasse Wüstenrot AG (2/2)

	2014Y	2015Y	2016Y	2017Y	2018Y
Funding and liquidity					
Net loans/ deposits (%)	79.5%	82.3%	87.4%	86.0%	87.0%
Liquidity coverage ratio (%)	NA	280.0%	222.8%	381.4%	476.9%
Net stable funding ratio (%)	NA	NA	132.4%	142.1%	142.3%
Asset mix, quality and growth					
Net loans/ assets (%)	68.1%	70.0%	74.1%	73.8%	73.6%
Problem loans/ gross customer loans (%)	NA	NA	NA	NA	NA
Loan loss reserves/ problem loans (%)	NA	NA	NA	NA	NA
Net loan growth (%)	0.9%	2.5%	5.2%	3.3%	3.7%
Problem loans/ tangible equity & reserves (%)	NA	NA	NA	NA	NA
Asset growth (%)	3.0%	-0.4%	-0.6%	3.6%	4.1%
Earnings and profitability					
Net interest margin (%)	1.8%	1.7%	1.6%	1.4%	1.7%
Net interest income/ average RWAs (%)	3.2%	2.9%	2.8%	2.4%	2.9%
Net interest income/ operating income (%)	69.7%	66.5%	65.0%	59.5%	67.8%
Net fees & commissions/ operating income (%)	9.3%	10.2%	9.1%	7.8%	5.8%
Cost/ income ratio (%)	87.6%	85.0%	85.1%	80.9%	72.4%
Operating expenses/ average RWAs (%)	4.1%	3.7%	3.7%	3.3%	3.1%
Pre-impairment operating profit/ average RWAs (%)	0.6%	0.7%	0.6%	0.8%	1.2%
Impairment on financial assets / pre-impairment income (%)	-0.2%	-0.1%	-0.1%	0.0%	0.1%
Loan loss provision/ average gross loans (%)	-0.2%	-0.1%	-0.2%	0.0%	NA
Pre-tax profit/ average RWAs (%)	0.7%	0.7%	0.5%	0.7%	1.1%
Return on average assets (%)	0.4%	0.4%	0.5%	0.3%	0.7%
Return on average RWAs (%)	0.7%	0.7%	0.9%	0.7%	1.3%
Return on average equity (%)	5.2%	5.1%	6.3%	4.3%	8.3%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	12.6%	13.6%	14.5%	14.7%	14.8%
Tier 1 capital ratio (%, transitional)	12.6%	13.6%	14.5%	14.7%	14.8%
Total capital ratio (%, transitional)	18.2%	19.0%	19.3%	18.6%	18.4%
Leverage ratio (%)	NA	NA	6.9%	7.1%	NA
Asset risk intensity (RWAs/ total assets, %)	54.5%	52.6%	52.5%	53.2%	52.9%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Appendix II: Summary of covered bond characteristics

Reporting date	28 December 2016	31 March 2018	31 March 2019
Issuer name	Bausparkasse Wüstenrot AG	Bausparkasse Wüstenrot AG	Bausparkasse Wüstenrot AG
Country	Austria	Austria	Austria
Covered bond name	Hypothekenpfandbrief (Hypf) Austrian mortgage covered bonds issued under the PfandG	Hypothekenpfandbrief (Hypf) Austrian mortgage covered bonds issued under the PfandG	Hypothekenpfandbrief (Hypf) Austrian mortgage covered bonds issued under the PfandG
Covered bond legal framework	Austrian legal covered bond framework	Austrian legal covered bond framework	Austrian legal covered bond framework
Cover pool type	Residential mortgages	Residential mortgages	Residential mortgages
Composition	Residential = 100.0% Substitute assets = 0.0%	Residential = 98.0% Substitute assets = 2.0%	Residential = 97.5% Substitute assets = 2.5%
Issuer rating	N/D	N/D	N/D
Current covered bond rating	AA+/Stable	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullet	Hard bullet	Hard bullet
Cover pool currency	EUR (100%)	EUR (100%)	EUR (100%)
Covered bond currency	EUR (100%)	EUR (100%)	EUR (100%)
Fundamental cover pool support (notches)	4	4	4
Max. achievable covered bond uplift (notches)	7	7	7
Potential covered bond rating buffer	0	0	0
Cover pool / Eligible assets (EUR m)	303.9 / 254.0	490.6 /410.1	473.9 /413.1
Covered bonds (EUR m)	2.0	132.0	224.0
Substitute assets (EUR m)	0.2	10.2	12.2
Current OC / Legal minimum OC	>15,000% / 2.0%	271.7% / 2.0%	117.0% / 2.0%
OC to support current uplift	7.5%	21.0%	25.0%
OC to support current rating upon a one-notch downgrade	N/A	N/A	N/A
WA maturity of assets (in years)	14.5	13.8	14.3
WA maturity of liabilities (in years)	7.9	16.4	18.8
WA maturity gap (in years)	6.6	-1.8	-4.5
Number of exposures	2,672	4,076	4,090
Average loan size (in EUR '000s)	113.7	117.9	115.9
Top-10 exposures	1.8%	1.2%	1.1%
Top-20 exposures	3.0%	2.0%	1.9%
Interest rate type – assets after hedge (fixed / floating)	75.0% / 25.0%	76.4% / 23.6%	75.0% / 25.0%
Interest rate type – liabilities (fixed / floating)	100% / 0%	100% / 0%	100% / 0%
Geographic split (top 3)	Lower Austria (23.4%) Upper Austria (14.4%) Styria (14.2%)	Lower Austria (23.7%) Upper Austria (14.5%) Styria (13.8%)	Lower Austria (23.1%) Upper Austria (13.8%) Styria (13.7%)
Default measure	Inverse Gaussian	Inverse Gaussian	Inverse Gaussian
Mean default rate	9.7%	10.7%	10.0%
Coefficient of variation	60.0%	60.0%	60.0%
Recovery rate (D0/D7)	96.1% / 57.7%	79.5% / 58.5%	91.3% / 79.4%
Current share of loans in arrears	0.00%	0.00%	0.00%
Interest rate stresses (max./min.; currency-dependent)	-1 to 10%	-1 to 10%	-1 to 10%
Forex stresses (max./min.; currency-dependent)	N/A	N/A	N/A
Liquidity premium	150bps	150bps	150bps
Servicing fee	25bps	25bps	25bps

[1] D0 or D7 denote the stresses commensurate with the rating distance between the issuer rating and the covered bond ratings.
[2] For the rating analysis and the calculation of the supporting OC we have taken into account the whole loan balance.

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